

# FINANCIAL MANAGEMENT

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# DISCLAIMER

- ◆ I AM NOT A PROFESSIONAL INVESTOR
- ◆ THIS IS NOT ADVICE
- ◆ THIS IS AN INFORMATIONAL AND INFORMAL BRIEF

# FINANCIAL MANAGEMENT

- ◆ CREDIT
- ◆ INCOME
- ◆ SAVINGS
- ◆ INVESTMENTS

# CREDIT

“Poor money management is not typically the reason consumers overspend and plunge into a debt nightmare. Rather, it is usually unforeseen circumstances that begin to pile on top of each other that lead to financial problems.”

# CREDIT STATISTICS

- ◆ 20% - Max out credit cards
- ◆ 25% - History of credit problems
- ◆ \$8,400 - Avg household credit debt
- ◆ 18.9% - Avg household credit card APR
- ◆ \$83.33 - Avg household monthly interest
- ◆ 112% - Avg credit purchase v. cash
- ◆ 40% - Households spend more than earned

## CREDIT STATISTICS cont.

“An \$8,000 debt, at 18%, will take 25 years to pay off and cost more than \$24,000 in the end (making only minimum payments).”

# INCOME

- ◆ Avoid CREDIT problems by managing income and live within financial means
- ◆ Know what your INCOME is, budget it
- ◆ Manage finances and divide income
- ◆ PAY YOURSELF FIRST - \$AVE, \$AVE, INVEST (REPEAT!!)

# INCOME

- ◆ GROSS INCOME (understood)
- ◆ DISPOSABLE INCOME (define)
- ◆ DISCRETIONARY INCOME (define)
- ◆ INVESTMENT INCOME (understood,  
your money making money for YOU ...)



# DISPOSABLE INCOME

◆ Amount left after taxes have been paid.  
What is left available for spending/saving.

- ◆ Federal Income Tax
- ◆ FICA (Social Security and Medicare)
- ◆ State Taxes
- ◆ Other deductions

# DISCRETIONARY INCOME

◆ Amount left after the essentials have been paid

- ◆ Food

- ◆ Clothing

- ◆ Shelter

- ◆ Additional needs (some say auto is need)

# SAVINGS

- ◆ Savings Rate – Amount saved divided by disposable income, expressed as a %.
  - ◆ “Much has been made of the low personal savings rate in the U.S. The rate’s drop from around 5% in early 1990s to near 0% by 1999 is a cause of serious concern.”
  - ◆ Peak savings rate of 13% in mid 1970s
  - ◆ The want of “possessions” has replaced the desire to save and spend responsibly

# SAVINGS

- ◆ The amount an average individual should be saving (saving leads to investing) is 15% of disposable income. Percentage can be divided up based on needs but should be first directed towards developing an emergency account.

# SAVINGS

- ◆ An emergency savings account should be developed; amount to be socked away varies:
  - ◆ Home Renter – 1-3x monthly gross income
  - ◆ Home Owner – 3-6x monthly gross income
  - ◆ BEQ – 1 month gross income

# SAVINGS

- ◆ Savings Account (emergency/purchases)
- ◆ Variable Certificates of Deposit (larger purchases)
  - ◆ CD (3-6 month maturity)
  - ◆ CD (1-3 year maturity)
- ◆ Money Market Accounts

# SAVINGS

- ◆ U.S. Savings Bonds are a great option for long term needs, no risk strategy
  - ◆ [www.treasurydirect.gov](http://www.treasurydirect.gov) (open an online account with the U.S. Treasury for purchase of savings bonds EE and I series)
  - ◆ Check ‘FAQs’ under “Resources” to learn more about Treasury Bills, Notes, Bonds, and STRIPs for long term savings and investment

# INVESTMENTS

- ◆ STRIPs
- ◆ MUTUAL FUNDS
- ◆ EXCHANGE-TRADED FUNDS (ETFs)
- ◆ INDIVIDUAL RETIREMENT  
ACCOUNTs (IRAs)



# INVESTMENTS

- ◆ STRIPs – Separate Trading of Registered Interest Principal of Securities (stripped interest bonds)
- ◆ Example:
  - ◆ \$202.07 for \$1,000 value in 25 years at 6.5% (fixed)
    - ◆ Establish broker account (sold by brokers)
    - ◆ Start of investment is determined by your desired age of retirement, desired maturity date, lifestyle or situation
    - ◆ Start age 40, buy for 15 years, retire at 65 (1<sup>st</sup> STRIP expected to mature); receive \$1,000/month until 80

# INVESTMENTS

## ◆ STRIPs (cont.)

- ◆ When a Treasury fixed-principal or inflation-indexed note or bond is stripped, each interest payment and the principal payment becomes a separate zero-coupon security. Each component has its own identifying number and can be held or traded separately

# INVESTMENTS

## ◆ STRIPs (cont.)

- ◆ For example, a Treasury note with 10 years remaining to maturity consists of a single principal payment at maturity and 20 interest payments, one every six months for 10 years. When this note is converted to STRIPS form, each of the 20 interest payments and the principal payment becomes a separate security.

# INVESTMENTS

## ◆ STRIPs (cont.)

- ◆ STRIPS are also called zero-coupon securities because the only time an investor receives a payment during the life of a STRIP is when it matures.

# INVESTMENTS

- ◆ Mutual Funds (things to look out for)...
  - ◆ Management Fees
  - ◆ Administrative Fees
  - ◆ Read prospectus (what is fund invested in)
  - ◆ Who is fund manager (how long managed fund)
  - ◆ Fund history

# INVESTMENTS

## ◆ Mutual Funds (cont.)

- ◆ Have become extremely popular over the last 20 years. To date over 80 million people, or one half of the households in America, invest in mutual funds. Trillions of dollars are invested in mutual funds.

# INVESTMENTS

## ◆ EXCHANGE-TRADED FUNDS (All traded on the AMEX)

- ◆ SPYDERS (SPDRs) – Tracks S&P 500
- ◆ QUBEs (QQQs) – Tracks Nasdaq 100
- ◆ DIAMONDS (DIA) – Tracks Dow Jones Industrial Average

# INVESTMENTS

## ◆ ETFs (cont.)

- ◆ An exchange-traded fund is like a mutual fund that trades like a stock. ETFs attempt to replicate the return of indexes but there is no guarantee they will do so. By owning an ETF you get the diversification of an INDEX FUND plus the flexibility of a STOCK.



# INVESTMENTS

## ◆ ETFs (cont.)

- ◆ The first ETF was the S&P 500 (SPDRs) in 1993. Today there are more than 80 different EFTs trading on the open market. All EFTs are passively managed which means that investors save big on management fees.

# INVESTMENTS

## ◆ Individual Retirement Accounts

- ◆ Regular/Traditional

- ◆ ROTH

# INVESTMENTS

## ◆ Regular/Traditional IRA

- ◆ Deduct from gross income (principal investment not taxed)
- ◆ Tax deferred (principal and interest taxed upon disbursement)

# INVESTMENTS

## ◆ ROTH IRA

- ◆ Principal investment is taxed (not deducted from gross income)
- ◆ Tax sheltered; all earned interest is tax free (disbursements are NOT taxed since principal investment was taxed)

# INVESTMENTS

## ◆ THRIFT SAVINGS PLAN

- ◆ G FUND (Bond Fund)
- ◆ F FUND (Fixed Securities)
- ◆ C FUND (S&P 500 Index)
- ◆ S FUND (Wilshire 4500 Index)
- ◆ I FUND (EAFE Index)

# RESOURCES

- ◆ [www.treasurydirect.gov](http://www.treasurydirect.gov)
- ◆ [www.investopedia.com](http://www.investopedia.com)
- ◆ [www.creditcounselingbiz.com](http://www.creditcounselingbiz.com)
- ◆ [www.retirement-planning-advice.com](http://www.retirement-planning-advice.com)
- ◆ [www.tsp.gov](http://www.tsp.gov)
- ◆ The INTERNET

# FINANCIAL MANAGEMENT

◆ QUESTIONS?